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Supreme Court, U.S.
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IN THE

# Supreme Court of the United States

USI MIDATLANTIC, INC., AND WILLIAM HAUGHEY,

*Petitioners,*

v.

WILLIAM A. GRAHAM COMPANY D/B/A THE GRAHAM COMPANY,

*Respondent.*

On Petition for a Writ of Certiorari
To the United States Court of Appeals
For the Third Circuit

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## I. THE THIRD CIRCUIT'S DEFAULT DISCOVERY-ACCRUAL RULE CONFLICTS WITH DECISIONS OF THIS COURT AND OF THE FIFTH CIRCUIT.

One thing is clear: for 130 years, this Court's "standard rule" has been that, in the absence of contrary congressional direction, limitations periods in federal statutes commence when the injury occurs, *Bay Area Laundry & Dry Cleaning v. Ferbar Corp., Inc.*, 522 U.S. 192, 201 (1997) (quoting *Rawlings v. Ray*, 312 U.S. 96, 98 (1941)), because at that point, "the cause of action is complete," *TRW, Inc. v. Andrews*, 534 U.S. 19, 39 (2001) (Scalia, J., concurring). Another thing is equally clear: the Third Circuit has taken exactly the opposite tack, holding in this case that, "'[i]n the absence of a contrary directive from Congress,' the 'federal discovery rule,'" not this Court's standard injury-accrual rule, governs. Pet. App. 16a (quoting *Disabled in Action of Penn. v. Southeastern Penn. Transp.*, 539 F.3d 199, 209 (3d Cir. 2008)). That holding squarely conflicts not only with more than a century of precedent from this Court, but with the Fifth Circuit's recent decision in *Frame v. City of Arlington*, 575 F.3d 432 (5th Cir. 2009), which held that "[a] claim ordinarily accrues when a plaintiff has 'a complete and present cause of action,'" and that "there is no default federal discovery rule," *id.* at 439 (quoting *Wallace v. Kato*, 549 U.S. 384, 388 (2007)).

Respondent's attempts to escape those conflicts simply underscore the depth of the confusion in circuit law because its arguments about other courts' decisions simply repeat those courts' same basic error of beginning the inquiry from the wrong background

rule. Indeed, what respondent labels a "wide-ranging, abstract" question (BIO 12) is, in fact, the central and recurring question pervading the courts of appeals' limitations-accrual decisions: is the starting point for accrual analysis the time of injury or the time of discovery? Given the state of circuit law, only this Court can restore a uniform standard rule against which Congress can legislate.

***First***, respondent insists (BIO 19) that the Third Circuit's decision was not driven by the default discovery rule. But that argument cannot survive a straightforward reading of the opinion. The Third Circuit expressly adopted a two-part test under which (i) the court determines whether Congress "specified an accrual date" explicitly or by implication, and, (ii) "'[i]n the absence of a contrary directive from Congress,' [the court applies] the 'federal discovery rule.'" Pet. App. 16a (quoting *Disabled in Action of Penn. v. Southeastern Penn. Transp.*, 539 F.3d 199, 209 (3d Cir. 2008)). Accordingly, absent contrary congressional direction, the Third Circuit's default rule is the discovery rule, not this Court's standard injury-accrual rule.

Indeed, the Third Circuit construed *TRW* as mandating an injury rule only when the statutory "text and structure" demonstrate "Congress' intent to *preclude* judicial implication of a discovery rule." Pet. App. 16a (emphasis added). The Third Circuit thus leaves the burden on Congress to disavow the discovery rule and, absent such indicia, the discovery rule governs, just as it did in this case.

Moreover, respondent's argument that "[t]he Third Circuit never reached step two of the *Disabled in Action* framework" is both wrong and misunderstands the interrelationship of the two

steps. BIO 26. The argument is wrong because the court ruled that "'the text and structure of the [Copyright Act] lend no guidance' as to 'Congress' intent with regard to when an infringement claim accrues,'" Pet. App. 17a, a conclusion that necessarily drove the Third Circuit to proceed to step two of the *Disabled in Action* framework. *See also* Pet. App. 17a (textual analysis "answers in the negative the first question raised in *Disabled in Action*").

The argument also fails to come to grips with the common-sense reality that the Third Circuit's default rule controls the search for congressional direction. The court's statement that "the text and structure of the Copyright Act favor use of the discovery rule," Pet. App. 17a, simply reflected the end-result of the court's mistaken search for textual signals contra-indicating the discovery rule. That analysis begs the question of whether courts should, in the first instance, be looking for indicia supporting an injury rule or supporting a discovery-accrual rule.

Thus, the Copyright Act's text and structure "favor" a discovery rule only by dint of the court of appeals' erroneous presumption that, in the absence of contrary guidance, federal limitations periods are governed by the discovery rule. Indeed, the Third Circuit's error could not be more stark: the court reasoned that, because "Congress provided *no directive mandating* the use of the injury rule to govern the accrual of claims under the Copyright Act," "[w]e conclude that the use of the discovery rule *comports with* the text, structure, legislative history and underlying policies of the Copyright Act." Pet. App. 23a (emphases added). That is precisely the analytical mistake that this Court's review is needed to correct.

***Second***, both respondent's and the court of appeals' analyses demonstrate the consequences of their erroneous starting point. The ruling below identified no material evidence from the text, structure, purpose, or history of the Copyright Act indicating a congressional intent to deviate from the presumption that limitations periods commence upon the defendant's injury. The only textual support for such a claim offered by either respondent or the court of appeals is that the Act contains two limitations periods: the provision governing this case applies when the claim "accrues" (17 U.S.C. § 506(b)); the other when the claim "arose" (17 U.S.C. § 507(a)). But that argument rests on the false premise that "arose" triggers an injury rule. Not so – contrary to respondent's contention (BIO 20), *TRW* concluded that the word "'arises' is *not* particularly instructive," in part because "[t]he dictionary definition of the word 'arise' . . . can be used to support *either* party's position" on the meaning of a statutory limitations period. 534 U.S. at 32 (emphases added).

***Third***, respondent's assertion that none of the other circuits "relied on a 'default' federal discovery rule" (BIO 18) in their Copyright Act cases is wrong. With respect to the Ninth Circuit, this Court is already familiar with its "general presumption applicable across all contexts" that a default discovery rule governs federal limitations periods. *TRW*, 534 U.S. at 27. In the copyright context, in particular, Ninth Circuit precedent rests on "the erroneous citation of a single case: *Roley v. New World Pictures*, [19 F.3d 479, 481 (9th Cir. 1994)]" for which "analysis rationalizing its decision * * * is *nonexistent*." Note, *Discovering Injury? The Confused State of the Statute of Limitations for*

*Federal Copyright Infringement*, 17 Fordham Intell. Prop. Media & Ent. L.J. 1125, 1134 (2007) (emphasis added).[1] And the Fourth Circuit and Sixth Circuits simply cite to *Roley* without elaboration in holding that claims under the Copyright Act accrue upon discovery. *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 202 (4th Cir. 1997); *Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d 615, 621 (6th Cir. 2004).

The decisions of the First, Second, and Eighth Circuits, for their part, merely cite earlier rulings of those circuits under other statutes, which refer to or are consistent with the misplaced discovery-rule presumption. *See Cambridge Literary Props. Ltd. V. W. Goebel Porzellankfabrik G.m.b.H. & Co.*, 510 F.3d 77, 81 (1st Cir. 2007) (quoting *Santa-Rosa v. Combo Records*, 471 F.3d 224, 227 (1st Cir. 2006) (quoting, in turn, *Rodriguez-Garcia v. Municipality of Caguas*, 354 F.3d 91, 96-97 (1st Cir. 2004) ("Under federal

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[1] Respondent strains to ground *Roley* in more than *ipse dixit* by likening it to *Prather v. Neva Paperbacks, Inc.*, 446 F.2d 338 (5th Cir. 1971), and *Wood v. Santa Barbara Chamber of Commerce, Inc.*, 507 F. Supp. 1128, 1135 (D. Nev. 1980). *See* BIO 15-16. But *Prather* and *Wood* are inapt because both of those decisions addressed the "tolling" of the limitations period for "equitable considerations," not its commencement. BIO 16. Respondent's invocation of *Polar Bear Products v. Timex Corp.*, 384 F.3d 700, 706-07 (9th Cir. 2004), fares no better. Contrary to respondent's assertion, (BIO 15), the Ninth Circuit in that case did not "ground[] its adoption of the discovery accrual for copyright on policy considerations." Rather, *Polar Bear* simply recites the rule from *Roley* and observes that the injury rule could leave a blameless plaintiff "out of luck." 384 F.3d at 706. That observation is simply at war with this Court's standard rule and the very purpose of a statute of limitations.

law, the limitations period begins to run when the plaintiff 'knows or has reason to know of the injury which is the basis for his claim.'") (quoting *Rodriguez Narvaez v. Nazario*, 895 F.2d 38, 41 n. 5 (1st Cir. 1990)); *Stone v. Williams*, 970 F.2d 1043 (2d Cir. 1992) ("A cause of action accrues when a plaintiff knows or has reason to know of the injury upon which the claim is premised") (citing *Cullen v. Margiotta*, 811 .2d 698, 725 (2d Cir. 1987)); *Comcast of Ill. X v. Multi Vision Elecs., Inc.*, 491 F.3d 939, 994 (8th Cir. 2007) ("In federal question cases, the discovery rule applies 'in the absence of a contrary directive from Congress.' Under this rule, a cause of action accrues and the statute of limitations begins to run when the plaintiff discovers, or with due diligence should have discovered, the injury which is the basis of the litigation") (quoting *Union Pac. R.R. Co. v. Beckham*, 138 F.3d 325, 330 (8th Cir. 1998)).

Finally, the Seventh Circuit applied the discovery rule to Copyright Act claims based on its view that "the tendency in modern law is to toll the statute of limitations until the victim could reasonably have discovered the cause of his woe." *Taylor v. Meirick*, 712 F.2d 1112, 1117 (7th Cir. 1983) (quoted in *Gaiman v. McFarlane*, 360 F.3d 644, 653 (7th Cir. 2004). That compounds the problem by conflating equitable tolling and the inquiry into when the running of the statute of limitations commences.

In the end, respondent is unable to identify a *single* circuit ruling setting forth any credible basis in the text, structure, or legislative history of the Copyright Act for departing from this Court's standard rule and applying the exceptional discovery rule. And while respondent emphasizes the number of decisions applying the discovery rule to Copyright

Act claims, that just proves petitioners' point. Multiple wrongs do not make a right; they simply underscore that the time has come for this Court to step in.[2]

***Fourth***, respondent does not and cannot argue that the Copyright Act falls within the narrow class of statutes that this Court would regard as presumptively subject to a discovery rule because the injuries are generally latent and hidden. Indeed, the Copyright Act is the least appropriate context in which to impose an open-ended discovery rule because infringing publication is generally *public*, not hidden. *See* Pet. 19-22.

Instead, respondent simply reiterates the Third Circuit's view that "a discovery accrual approach protects against those 'instances' where there is hidden infringement that cannot reasonably be discovered." BIO 23. But such "instances" occur under almost every statute of limitations. Those "instances" simply reflect the price society chooses to pay for balancing the would-be plaintiff's interests against the countervailing benefits of preventing stale claims, encouraging diligence by plaintiffs, and ensuring fairness in the trial process. Pet. 14 n.3. That some claims may be foreclosed provides no justification for changing the limitations period for *all* claims, particularly given the availability of the

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[2] Respondent complains that the petition "offer[s] no proof" that the application of a discovery rule "has 'chilled' content creation." BIO 25. But the prospect that liability will chill expression is a settled part of this Court's First Amendment jurisprudence. *See, e.g., New York Times v. Sullivan*, 376 U.S. 254 (1964).

equitable tolling doctrine to redress truly unjust circumstances.

***Fifth***, respondent cannot escape the inter-circuit conflict created by the Fifth Circuit's recent holding that the injury-accrual rule is the default rule in that Circuit. *See Frame v. City of Arlington*, 575 F.3d 432 (5th Cir. 2009). Respondent attempts to minimize the conflict by arguing that the Fifth Circuit "*expressly followed Disabled in Action*." BIO 27 (emphasis in original). In fact, the Fifth Circuit expressly held that "there is no default federal discovery rule," and "[a] claim ordinarily accrues when a plaintiff has 'a complete and present cause of action' or, stated differently, 'when the plaintiff can file suit and obtain relief,'" 575 F.3d at 439 (quoting *Wallace v. Kato*, 549 U.S. 384, 388 (2007)). That is the exact opposite of the Third Circuit's holding here that, "'[i]n the absence of a contrary directive from Congress,' [the court applies] the 'federal discovery rule.'" Pet. App. 16a. The only respect in which the Fifth Circuit "followed" *Disabled in Action* (BIO 27) was not on the governing default rule, but on the very different proposition that the "structure and text of 42 U.S.C. § 12147(a) imply that claims brought under Title II to compel ADA compliance at public transportation facilities accrue upon the completion of alterations to facilities." 575 F.3d at 439.

## II. THE CASE SHOULD BE HELD PENDING THIS COURT'S DECISION IN *MERCK & CO. v. REYNOLDS*, NO. 08-905

Apart from the erroneous application of a default discovery-accrual rule in this case, the Third Circuit's ten-year extension of the limitations period rested on

its application of a "storm warnings" rule currently under review by this Court. As respondent twice acknowledges (BIO 29, 31), the court of appeals expressly relied on its decision in *In re Merck & Co., Inc. Sec., Derivative & "ERISA" Litig.*, 543 F.3d 150 (3d Cir. 2008), *cert. granted*, 129 S. Ct. 2432 (May 26, 2009) (No. 08-905), in holding that warnings of Haughey's intent to infringe and infringing conduct were not sufficient to trigger the statute of limitations. Pet. App. 30a-31a. In so ruling, the court of appeals cited and discussed *Merck*'s exceptionally rigid test for triggering the duty to investigate (*see* Pet. 23-25), and then held that *Merck*'s rule "[s]imilarly" foreclosed reliance on Haughey's suspicious conduct in this case. Pet. App. 31a.

Because of the court of appeals' explicit reliance on *Merck* as furnishing the analytical framework for a storm-warnings claim, this Court's review of the propriety of *Merck*'s rule will cast direct light on the court of appeals' disposition of this case. Accordingly, the petition should be held pending this Court's decision in *Merck*, and then disposed of in accordance with the Court's decision in that case.

Respondent's efforts to distance this case from *Merck* fail. First, respondent notes (BIO 29) that the court of appeals only cited *Merck* once. True enough. But once was enough to lay down the governing law and then expressly apply it to the facts of this case (Pet. App. 31a).

Second, respondent stresses (BIO 30) that *Merck* arose in the securities litigation context, rather than the copyright area. That too is correct, but it simply compounds the need to hold this case to cabin the Third Circuit's rule – which already stood "on the

periphery of inquiry notice jurisprudence" (08-905 Pet. 23, *Merck, supra*) – pending this Court's review. Indeed, because in this case neither the court of appeals nor respondent suggested that a different storm-warnings rule should apply in the copyright context, the question whether *Merck* is a valid rule for limitations periods cutting across federal law will rise or fall with this Court's disposition of the rule in *Merck* itself.

Third, respondent's effort to diminish *Merck*'s influence on this case to one piece of evidence fails. To begin with, because storm warnings act cumulatively rather than in isolation in alerting a would-be plaintiff of injury, the court of appeals' use of a straitened mode of analysis to discard a critical piece of evidence – one that warned respondent that Haughey was actively breaching his contractual promises to respondent – necessarily impacted the statute of limitations inquiry.

Beyond that, the *Merck* analysis applied by the court of appeals echoes throughout its storm-warnings analysis. Both immediately following its discussion of *Merck* and elsewhere, the court's constant refrain is that each warning was insufficient because it did not by itself indicate the completed offense of "copyright infringement." *Compare* Pet. App. 31a, with *id.* at 29a, 32a. Thus, *Merck*'s rule that only evidence alerting the plaintiff to each element of its claim constitutes notice reverberated throughout the decision.

Indeed, respondent itself acknowledges that the court's rationale for rejecting the storm-warnings evidence was that notice of Haughey's improper and untrustworthy conduct was "a far cry from copyright infringement." BIO 31. Likewise, in assessing the

evidence before the jury, the Third Circuit stressed that "[t]here [was] no evidence to suggest that Graham had actual knowledge of any infringement until 2004." Pet. App. 32a, *see id.* at 8a; *id.* at 30a (citing *Merck* for the proposition that "'a smattering of evidence hint[ing] at the possibility of some type of fraud'" does not suffice to excite storm warnings of culpable activity). It is precisely that equation of storm warnings and the actual elements of the offense that this Court has taken under review in *Merck*.

Underscoring the point, respondent offers nothing but silence in response to petitioners' explanation that this case would have come out differently in any one of the numerous other circuits that apply a less-cramped notice rule for triggering statutes of limitations. *See* Pet. 25. That silence confesses that the question before this Court in *Merck* was central to the Third Circuit's disposition of this case.

## CONCLUSION

The petition for a writ of certiorari should be granted with respect to the first question presented or, in the alternative, held pending this Court's decision in *Merck & Co. v. Reynolds*, No. 08-905, and then disposed of in light of the Court's decision in that case.

Respectfully submitted,

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